

VICTOR ELEMENTARY  
SCHOOL DISTRICT  
COUNTY OF SAN BERNARDINO  
VICTORVILLE, CALIFORNIA  
AUDIT REPORT  
June 30, 2008

05084

VICTOR ELEMENTARY SCHOOL DISTRICT  
AUDIT REPORT  
June 30, 2008

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VICTOR ELEMENTARY SCHOOL DISTRICT  
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June 30, 2008

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A Professional  
Accountancy Corporation

Board of Trustees  
Victor Elementary School District  
Victorville, California

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Victor Elementary School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Victor Elementary School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Victor Elementary School District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2008 on our consideration of the Victor Elementary School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and budgetary comparison information on pages 47 and 48 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Victor Elementary School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Nigro Nigro & White, PC".

Murrieta, California  
November 28, 2008

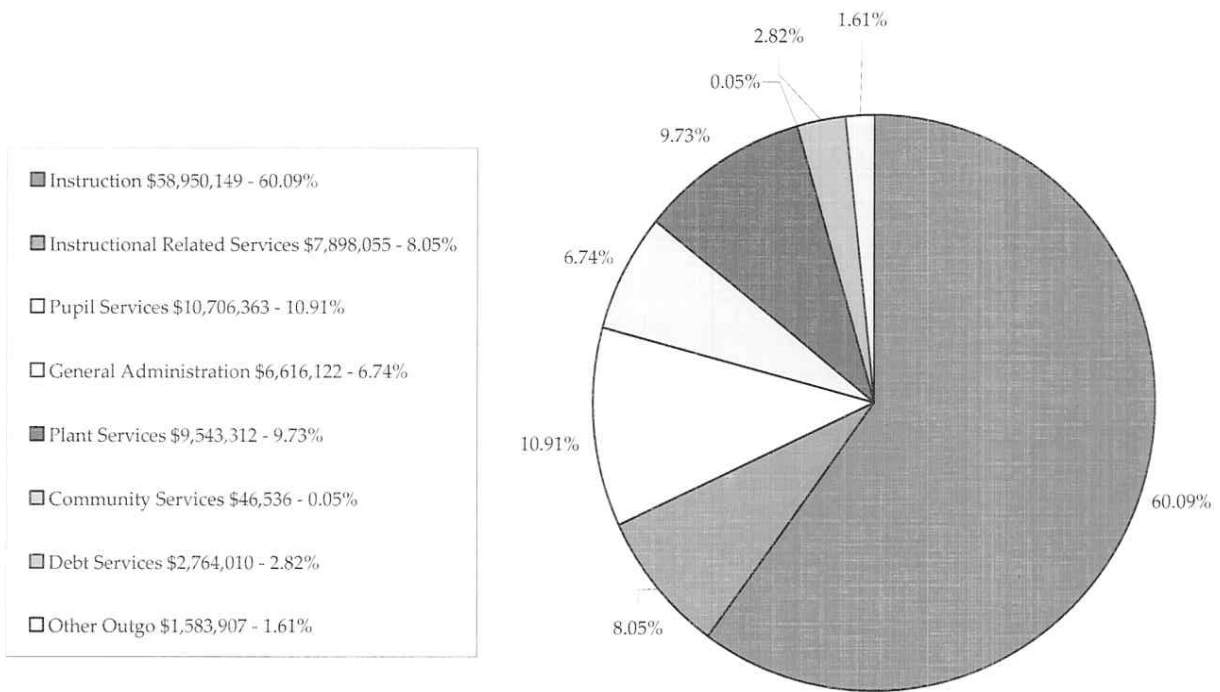
**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

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**THE SCHOOL DISTRICT AS A WHOLE (continued)**

**Statement of Activities**

Revenues for the District's governmental activities were \$103.1 million, an increase of \$5.8 million from last year. Total expenses were \$98.1 million, an increase of \$9.5 million. The Statement of Activities represents the summary of expenses and revenues by governmental functions/programs. The table below presents the costs of seven major district activities.



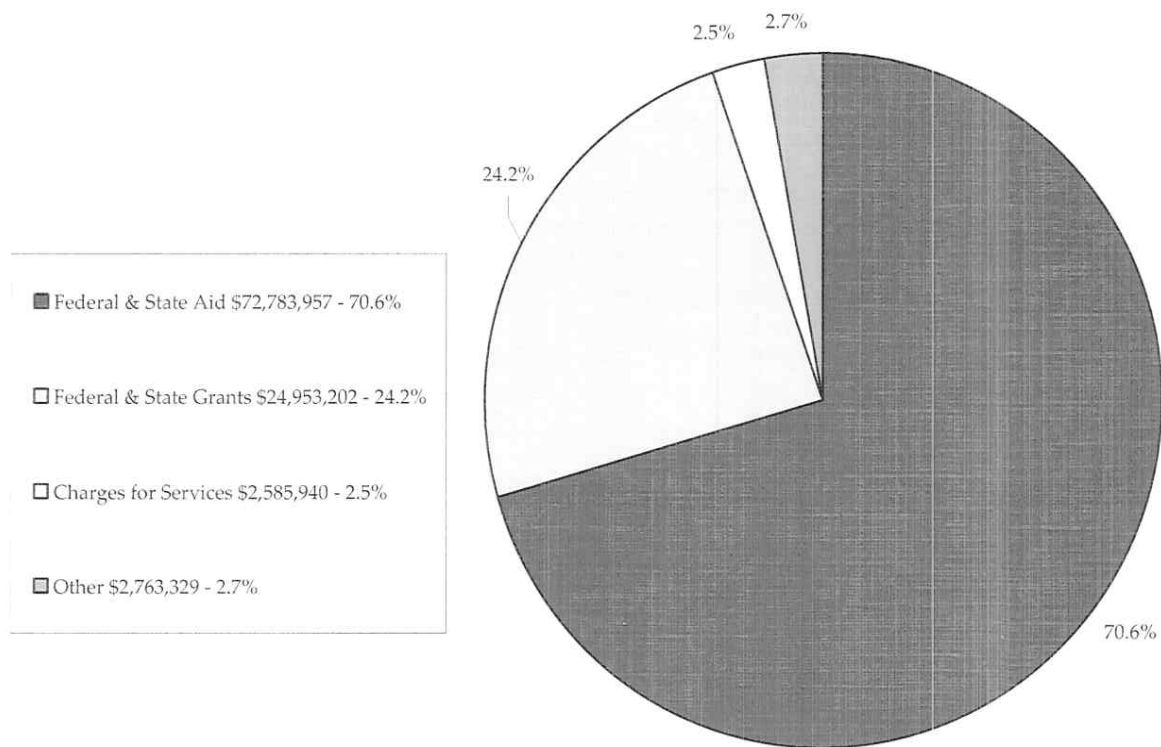
**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

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**THE SCHOOL DISTRICT AS A WHOLE (continued)**

**Statement of Activities**

The chart below represents the summary of Revenues by Governmental Function.



**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

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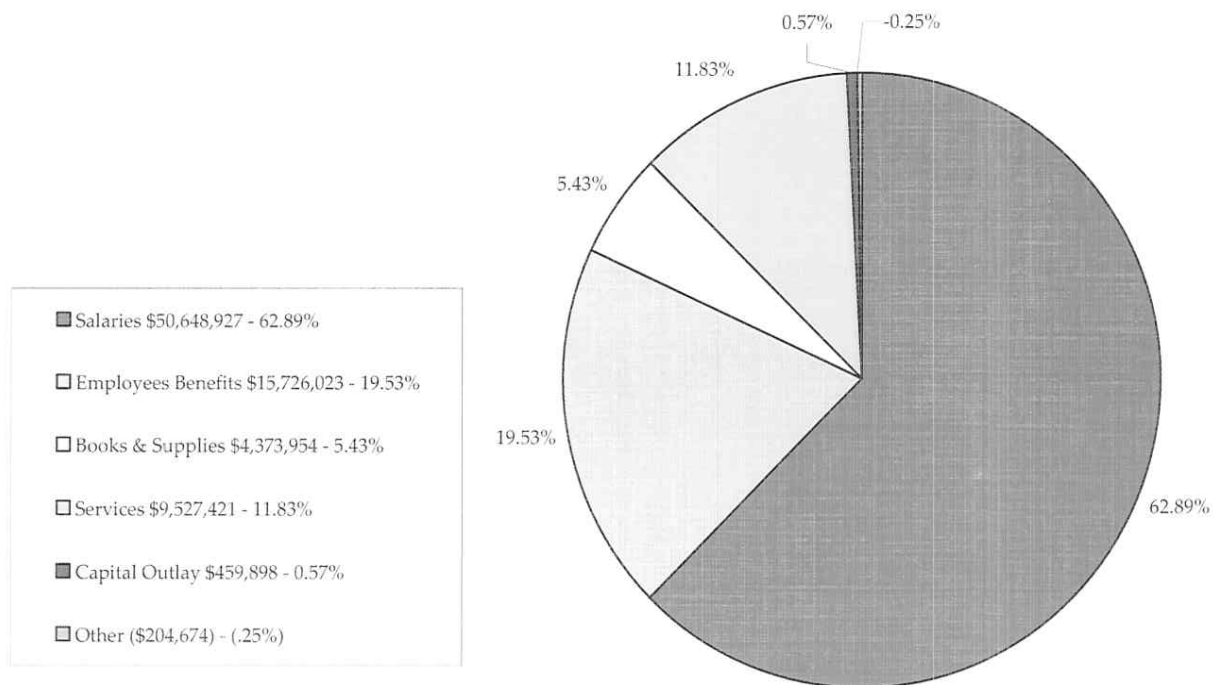
**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)**

**General Fund**

There are several reasons for Budget revisions. Most notable are the final passage of the State of California Budget and any salary increases granted by the Board of Trustees for the district employees. The implementation of new instructional or categorical programs can also require budget revisions, such as our emphasis on closing the achievement gap for all students which requires several academic focused programs.

The General Fund ending balance in 2007/2008 was increased \$343,441 from 2006/2007.

Operating expenses can be classified in six categories. The chart below shows the General Fund expenses for 2007-2008.



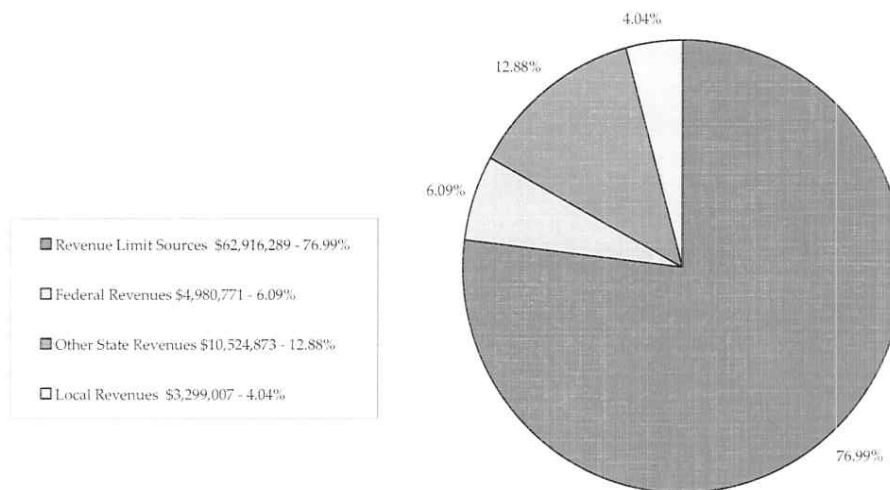
**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)**

**General Fund (continued)**

General Fund revenues can be divided into four classifications. Below is a chart showing 2007-2008 General Fund Revenues:



**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

VESD's investment in capital assets amounts to \$134,487,466. The table below shows the individualized amounts.

Capital Assets	2006-2007	2007-2008	Increase (decrease)
Land	\$ 8,645,562	\$ 8,940,562	\$ 295,000
Buildings	98,979,892	107,870,150	8,890,258
Improvement of Sites	5,334,627	5,439,256	104,629
Construction in Progress	5,094,992	6,580,300	1,485,308
Equipment	5,063,803	5,657,198	593,395
	<u>\$ 123,118,876</u>	<u>\$ 134,487,466</u>	<u>\$ 11,368,590</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

The buildings consist of sixteen schools, two Charter schools, the district office, maintenance and warehouse facility, transportation facilities, cafeteria facilities and a curriculum office with meeting rooms.

West Palms, VESD's 16<sup>th</sup> school, opened September 1, 2007.

**Long Term Debt**

At year-end, the District had \$83.8 million in long term debt. The chart below describes the various debt vehicles and a comparison with last year.

<b>Debt</b>	<b>Balance 6/30/07</b>	<b>Balance 6/30/08</b>	<b>Difference</b>	<b>Payment Funding</b>
General Obligation Bonds	\$ 53,216,129	\$ 53,645,628	\$ 429,499	Paid by local property taxes
Certificates of Participation	9,315,000	8,945,000	(370,000)	Paid by COP investment
Post Employment Benefits	1,314,985	3,309,209	1,994,224	Paid out of VESD General Fund
Compensated Absences Payable	223,386	236,762	13,376	Transferred to retirement benefits from PERS or STRS
Other General Long term Community Facilities District	\$ 13,720,000	\$ 17,670,000	\$ 3,950,000	Paid by local property taxes

**FACTORS BEARING ON VESD'S FUTURE**

**California's State Budget**

On September 23, 2008, Governor Schwarzenegger signed the 2008-09 Budget, ending the longest budget stalemate in California's history. The final spending plan includes \$24.0 billion of "solutions", including \$10.3 billion in spending cuts, \$9.6 billion in revenue-related provisions, and \$4.0 billion in borrowing.

The final budget agreement includes:

- A total of \$10.3 billion in spending reductions, including \$3.3 billion in cuts to "base" K-14 education spending.
- Changes to the budget process that would substantially increase the size of the state's reserve and limit the use of future revenues that exceed anticipated levels. The agreement also would give governors vast new power to unilaterally reduce spending midway through the budget year.
- Assumes that the state will issue bonds backed by lottery proceeds in 2009-10. The budget agreement includes provisions aimed at doubling the amount Californians spend on lottery purchases and would replace schools' allocation from lottery proceeds with a General Fund appropriation equivalent to the amount allocated to education from the lottery in 2008-09. The General Fund allocation for education would increase over time based on enrollment and per capita personal income growth.

# **VICTOR ELEMENTARY SCHOOL DISTRICT**

## **Management's Discussion and Analysis (Unaudited)**

### **Year Ended June 30, 2008**

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#### **FACTORS BEARING ON VESD'S FUTURE (continued)**

- A one-time shift of \$350 million in property tax revenues from redevelopment agencies to schools and a commensurate reduction in state General Fund support for schools and community colleges.

As signed by the Governor, the 2008-09 Budget provides \$58.1 billion in funding for K-14 education programs under the Proposition 98 guarantee. The Budget reduces "base" K-14 education spending by \$3.3 billion.

The 2008-09 Budget and related legislation:

- Provide a 0.68 percent COLA to fund revenue limits for school districts and county offices of education, which is below the 5.66 percent statutory COLA and the 2.12 percent COLA proposed by the Conference Committee. The 2008-09 Budget does not provide a COLA for categorical programs, such as class size reduction and instructional materials.
- Do not provide \$150 million in 2008-09 Proposition 98 "settle-up" funds needed to meet prior-year Proposition 98 obligations.
- Proposed to modify Proposition 49, the After School Education and Safety Program (ASES) Act, by submitting a ballot measure to voters in November 2008. However, the Governor vetoed the bill that would have submitted the measure to voters. The measure would have removed Proposition 49's minimum funding level of \$550 million and would have allowed annual ASES budgeting decisions to be made by the Legislature.

#### **Enrollment**

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office at 15579 8<sup>th</sup> Street, Victorville, California 92395-3262.

## *Financial Section*

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**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2008**

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<b>Assets</b>	<b>Governmental Activities</b>
Cash	\$ 46,563,250
Investments	17,776,769
Accounts receivable	8,204,344
Stores inventories	388,468
Prepaid expenditures	459,851
Total current assets	<u>73,392,682</u>
Capital assets:	
Land	8,940,562
Improvement of sites	5,439,256
Buildings and improvements	107,870,150
Machinery and equipment	5,657,198
Work in progress	6,580,300
Less accumulated depreciation	<u>(23,778,989)</u>
Total noncurrent assets	<u>110,708,477</u>
 Total assets	 <u>\$ 184,101,159</u>
 <b>Liabilities</b>	
Accounts payable	\$ 10,603,681
Deferred revenues	132,887
Long-term liabilities:	
Due within one year	3,405,805
Due after one year	<u>80,400,794</u>
 Total liabilities	 <u>94,543,167</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	33,839,583
Restricted for:	
Capital projects	19,498,439
Debt service	15,629,575
Categorical programs	3,094,943
Unrestricted	<u>17,495,452</u>
 Total net assets	 <u>\$ 89,557,992</u>

The notes to the financial statements are an integral part of this statement.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
<b>Governmental Activities</b>					
Instruction	\$ 58,922,897	\$ 36,957	\$ 8,949,157	\$ 8,317,722	\$ (41,619,061)
Instruction-related services					
Supervision of instruction	1,036,661	685	830,394	-	(205,582)
Instructional library, media and technology	1,287,845	-	703,986	-	(583,859)
School site administration	5,573,549	-	40,766	-	(5,532,783)
Pupil Services:					
Home-to-school transportation	3,384,591	-	964,044	-	(2,420,547)
Food services	4,535,418	519,216	3,431,518	-	(584,684)
All other pupil services	2,786,354	9,515	568,376	-	(2,208,463)
General Administration:					
Data processing	418,526	-	7,224	-	(411,302)
All other general administration	6,197,596	35,814	430,549	-	(5,731,233)
Plant services	9,543,312	1,983,744	574,449	-	(6,985,119)
Community services	46,536	-	124,372	-	77,836
Interest on long-term debt	2,764,010	-	-	-	(2,764,010)
Other outgo	1,583,907	9	10,644	-	(1,573,254)
<b>Total governmental activities</b>	<b>\$ 98,081,202</b>	<b>\$ 2,585,940</b>	<b>\$ 16,635,479</b>	<b>\$ 8,317,722</b>	<b>\$ (70,542,061)</b>
General Revenues:					
Property taxes					10,373,556
Federal and state aid not restricted to specific purposes					62,410,401
Interest and investment earnings					2,247,788
Interagency Revenues					84,961
Miscellaneous					430,580
<b>Total general revenue</b>					<b>75,547,286</b>
Change in net assets					5,005,225
Net assets - June 30, 2007					84,552,767
Net assets - June 30, 2008					<b>\$ 89,557,992</b>

The notes to the financial statements are an integral part of this statement.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Balance Sheet – Governmental Funds**  
**June 30, 2008**

	General Fund	Cafeteria Fund	Capital Facilities	Special Reserve Fund for Capital Outlay	Capital Project for Blended Component Units	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Cash	\$ 20,546,124	\$ 648,486	\$ 7,350,614	\$ 10,467,629	\$ -	\$ -	\$ 7,550,397	\$ 46,563,250
Investments	-	100,000	-	-	5,052,830	9,863,722	2,760,217	17,776,769
Accounts receivable	7,258,273	641,861	107,491	115,196	6,603	-	74,920	8,204,344
Due from other funds	467,587	47,270	78	185,041	-	-	200,000	899,976
Stores inventories	330,385	58,083	-	-	-	-	-	388,468
Prepaid expenditures	5,223	-	-	-	-	-	-	5,223
<b>Total Assets</b>	<b>\$ 28,607,592</b>	<b>\$ 1,495,700</b>	<b>\$ 7,458,183</b>	<b>\$ 10,767,866</b>	<b>\$ 5,059,433</b>	<b>\$ 9,863,722</b>	<b>\$ 10,585,534</b>	<b>\$ 73,838,030</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ 6,738,578	\$ 71,134	\$ 904,838	\$ 445,525	\$ 1,667,699	\$ -	\$ 38,664	\$ 9,866,438
Due to other funds	392,360	407,502	60,031	-	-	-	40,083	899,976
Deferred revenues	132,887	-	-	-	-	-	-	132,887
<b>Total Liabilities</b>	<b>7,263,825</b>	<b>478,636</b>	<b>964,869</b>	<b>445,525</b>	<b>1,667,699</b>	<b>-</b>	<b>78,747</b>	<b>10,899,301</b>
<b>Fund Balances</b>								
Reserved for:								
Stores inventories	330,385	58,083	-	-	-	-	-	388,468
Revolving cash	50,000	187	-	-	-	-	-	50,187
Prepaid expenditures	5,223	-	-	-	-	-	-	5,223
Legally restricted balance	3,094,943	-	-	-	-	-	-	3,094,943
Debt service	-	-	-	-	-	9,863,722	5,765,853	15,629,575
Unreserved, reported in:								
General fund	17,863,216	-	-	-	-	-	-	17,863,216
Special revenue funds	-	958,794	-	-	-	-	2,058,150	3,016,944
Capital projects funds	-	-	6,493,314	10,322,341	3,391,734	-	2,682,784	22,890,173
<b>Total Fund Balances</b>	<b>21,343,767</b>	<b>1,017,064</b>	<b>6,493,314</b>	<b>10,322,341</b>	<b>3,391,734</b>	<b>9,863,722</b>	<b>10,506,787</b>	<b>62,938,729</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 28,607,592</b>	<b>\$ 1,495,700</b>	<b>\$ 7,458,183</b>	<b>\$ 10,767,866</b>	<b>\$ 5,059,433</b>	<b>\$ 9,863,722</b>	<b>\$ 10,585,534</b>	<b>\$ 73,838,030</b>

The notes to the financial statements are an integral part of this statement.

# VICTOR ELEMENTARY SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of

### Net Assets

June 30, 2008

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Total fund balances - governmental funds \$ 62,938,729

Capital assets used in governmental *activities* are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 134,487,466, and the accumulated depreciation is \$23,778,989. 110,708,477

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 454,628

In government funds, interest on long term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (737,243)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General obligation bonds payable	53,645,628	
Certificates of participation	8,945,000	
Early retirement incentives	977,797	
Other postemployment benefits	2,331,412	
Compensated absences	236,762	
Special tax bonds	17,670,000	(83,806,599)

Total net assets - governmental activities \$ 89,557,992

The notes to the financial statements are an integral part of this statement.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances –**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	General Fund	Cafeteria Fund	Capital Facilities	Special Reserve for Capital Outlay Projects	Capital Project for Blended Component Units	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
General Revenues:								
Property taxes	\$ 5,985,734	\$ -	\$ -	\$ 847,845	\$ -	\$ -	\$ 3,539,977	\$ 10,373,556
Federal and state aid not restricted to specific purpose	62,410,401	-	-	-	-	-	-	62,410,401
Interest and investment earnings	1,154,149	-	-	-	173,402	696,230	224,007	2,247,788
Interagency revenues	84,961	-	-	-	-	-	-	84,961
Miscellaneous	399,020	-	-	-	-	-	31,560	430,580
Program Revenues:								
Charges for services	30,000	554,922	2,001,018	-	-	-	-	2,585,940
Operating grants and contributions	11,656,676	3,645,986	352,313	482,554	-	-	497,950	16,635,479
Capital grants and contributions	-	-	-	-	-	-	8,317,722	8,317,722
Total revenues	81,720,941	4,200,908	2,353,331	1,330,399	173,402	696,230	12,611,216	103,086,427
<b>Expenditures</b>								
Instruction	54,152,673	-	-	-	-	-	-	54,152,673
Instruction-related services								
Supervision of instruction	1,032,242	-	-	-	-	-	-	1,032,242
Instructional library, media and technology	1,143,479	-	-	-	-	-	-	1,143,479
School site administration	5,469,270	-	-	-	-	-	-	5,469,270
Pupil Services:								
Home-to-school transportation	3,006,826	-	-	-	-	-	-	3,006,826
Food services	32,197	3,803,002	-	-	-	-	-	3,835,199
All other pupil services	2,786,354	-	-	-	-	-	-	2,786,354
General Administration:								
Data processing	382,530	-	-	-	-	-	-	382,530
All other general administration	3,848,057	158,397	60,094	-	-	-	-	4,066,548
Plant services	8,341,661	85,362	-	-	3,244,800	-	886,270	12,558,093
Facility acquisition and construction	275,972	-	7,887,190	1,487,632	-	-	1,646,475	11,297,269
Community services	46,536	-	-	-	-	-	-	46,536
Debt Service:								
Transfers between agencies	13,752	-	-	-	-	-	-	13,752
Principal	-	-	-	-	-	370,000	1,017,518	1,387,518
Interest	-	-	-	-	-	591,574	2,113,181	2,704,755
Issuance cost	-	-	-	-	124,958	-	-	124,958
Total expenditures	80,531,549	4,046,761	7,947,284	1,487,632	3,369,758	961,574	5,663,444	104,008,002
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,189,392	154,147	(5,593,953)	(157,233)	(3,196,356)	(265,344)	6,947,772	(921,575)
<b>Other Financing Sources (Uses)</b>								
Proceeds from long-term debt	-	-	-	-	3,417,866	-	562,134	3,980,000
Interfund transfers out	(845,951)	-	-	-	(1,774,844)	-	(5,060,979)	(7,681,774)
Interfund transfers in	-	-	5,569,081	1,429,055	22,728	-	660,910	7,681,774
Total Other Financing Sources and Uses	(845,951)	-	5,569,081	1,429,055	1,665,750	-	(3,837,935)	3,980,000
Net Change in Fund Balances	343,441	154,147	(24,872)	1,271,822	(1,530,606)	(265,344)	3,109,837	3,058,425
Fund Balances, June 30, 2007	21,000,326	862,917	6,518,186	9,050,519	4,922,340	10,129,066	7,396,950	59,880,304
Fund Balances, June 30, 2008	\$ 21,343,767	\$ 1,017,064	\$ 6,493,314	\$ 10,322,341	\$ 3,391,734	\$ 9,863,722	\$ 10,506,787	\$ 62,938,729

The notes to the financial statements are an integral part of this statement.

# VICTOR ELEMENTARY SCHOOL DISTRICT

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

### For the Year Ended June 30, 2008

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Total net change in fund balances - governmental funds \$ 3,058,425

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over the estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	11,343,036	
Depreciation expense	(3,344,505)	
Net:	7,998,531	

Debt Service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of the long-term debt were: 1,387,518

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (1,469,820)

Debt Proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (3,980,000)

Debt Issuance Costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is: 24,623

In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period that it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. 52,802

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: (59,253)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned was: (13,377)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was: (1,994,224)

Change in net assets of governmental activities \$ 5,005,225

The notes to the financial statements are an integral part of this statement.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets**  
**June 30, 2008**

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	Agency Funds
	Student Body Funds
<b>ASSETS</b>	
Cash	\$ 27,782
Total assets	\$ 27,782
<b>LIABILITIES</b>	
Due to student groups	\$ 27,782
Total liabilities	\$ 27,782

The notes to the financial statements are an integral part of this statement.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

A. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-6 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although a legally separate entity, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

*Scope of Public Service:*

Victor Elementary School District Financing Corporation

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in 1996. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a lease-purchase agreement dated April 1, 1996.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Reporting Entity (continued)**

*Scope of Public Service (continued):*

Community Facilities Districts

On May 26, 2004, the District adopted a resolution to form Community Facilities District (CFD) No.2004-1 of the Victor Elementary School District, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. Additionally, the District established CFD No. 2005-1 on August 3, 2005, CFD No. 2005-2 on December 14, 2005 and CFD No. 2006-2 on August 2, 2006. The CFDs are authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. More information regarding the bonds is included in Note 6C.

*Financial Presentation:*

For financial presentation purposes, each component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the Victor Elementary School District Financing Corporation in the Debt Service Fund and the financial activity of the CFDs within the Capital Projects Fund and Debt Service Fund for Blended Component Units. Certificates of Participation issued by the corporation, bonds issued by the CFD, and capital assets acquired or constructed by the component units are included in the Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

The following are those aspects of the relationship between the District and the component units which satisfy the criteria of GASB Statement No. 14, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

*Manifestations of Oversight*

- The component units and the District have common boards.
- The component units have no employees. The District's Superintendent functions as an agent of the component unit.
- The District exercises significant influence over operations of the component unit as all projects of the component unit involve the Victor Elementary School District.

*Accountability of Fiscal Matters*

- The District is responsible for preparation of the annual budgets for the component units.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Presentation**

*Scope of Public Service*

- The component units were created specifically to finance capital improvements for the Victor Elementary School District.

*Government-wide Financial Statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

*Fund Financial Statements:*

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Presentation (continued)**

*Fund Financial Statements (continued):*

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

*Revenues – exchange and non-exchange transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

VICTOR ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

*Deferred revenue:*

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

*Expenses/expenditures:*

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds, as follows:

VICTOR ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

*Major Governmental Funds:*

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

The *Special Reserve Fund (Capital Outlay)* is used to accumulate resources for the purpose of capital outlay projects for the District.

The *Capital Projects Fund for Blended Component Units* is used to account for capital projects activity of the Community Facilities Districts.

The *Debt Service Fund for Blended Component Units* is used to account for the accumulation of resources for, and the repayment of special tax bonds.

*Non-Major Governmental Funds:*

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains one non-major special revenue fund:

1. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.

*Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains two non-major debt service funds:

1. The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.
2. The *Debt Service Fund* is used to account for debt service activity of the certificates of participation issued by the Victor Elementary School District Financing Corporation.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Fund Accounting (continued)**

*Non-Major Governmental Funds (continued):*

*Capital Projects Funds* are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains three non-major capital project funds:

1. The Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
2. The State School Building Lease-Purchase Fund is used to account for state apportionments provided for construction and modernization of school facilities.
3. The County School Facilities Fund is used to account for state apportionments provided under the SB50 School Facilities Program for construction and modernization of school facilities.

*Fiduciary Funds:*

*Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District that maintain a student body fund.

**F. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The adopted and final revised budget is presented for the General Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

VICTOR ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District's central warehouse inventory is valued at a moving average cost for presentation. The cafeteria inventory valuation is First-in-First-out (FIFO).

The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred. On the government-wide statements, the District reports unamortized debt issuance cost as prepaid expenses.

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

VICTOR ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable. Unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Revenue Limit/Property Tax**

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

**J. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

VICTOR ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements

During the 2007-08 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* was issued in September 2006. This statement establishes criteria that governments use to ascertain whether proceeds received as a lump sum payment in exchange for certain receivables should be reported as a revenue or liability. The District had no such transactions during the year.

GASB Statement No. 50 – *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27* was issued in May 2007. This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers present certain information related to note disclosures.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Governmental Activities	Fiduciary Funds
Cash:		
Cash in county	\$ 45,864,765	\$ -
Cash on hand and in banks	648,485	27,782
Cash in revolving fund	50,000	-
Sub-Total Cash	46,563,250	\$ 27,782
Investments:		
AIM Trust Treasury	7,813,046	
AIG Sun America	8,852,765	
Certificate of Deposits	100,000	
Bank of New York	1,010,958	
Sub-Total Investments	17,776,769	
Total Deposits and Investments	\$ 64,340,019	

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

*Cash in County Treasury* – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the San Bernardino County Investment Pool with a fair value of approximately \$45,924,389 and an amortized book value of \$45,864,765. The average weighted maturity for this pool is 341 days. In addition, the District maintains investments having a fair value of \$7,813,046 with Aim Trust Treasury Portfolio, investments having a fair value of \$1,010,958 with Bank of New York, investments having a fair value of \$8,852,765 with AIG Sun America, and a Certificate of Deposit with Desert Community Bank having a fair value of \$100,000. Fair value for these investments approximates cost.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Bernardino County Investment Pool is rated Aaa by Moody's Investor Service.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, \$705,724 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2008 consist of the following:

	General Fund	Cafeteria Fund	Capital Facilities Fund	Special Reserve Capital Outlay	Capital Projects for Blended Components Units	Other Governmental Funds	Totals
Federal Government:							
Categorical aid programs	\$ 1,244,817	\$ 602,338	\$ -	\$ -	\$ -	\$ -	\$ 1,847,155
State Government:							
Revenue limit	3,953,065	-	-	-	-	-	3,953,065
Lottery	737,345	-	-	-	-	-	737,345
Categorical aid programs	289,520	36,932	-	-	-	-	326,452
Other State	428,591	-	-	-	-	-	428,591
Local:							
Interest	243,247	-	66,982	-	-	-	310,229
Other	361,688	2,591	40,509	115,196	6,603	74,920	601,507
Totals	<u>\$ 7,258,273</u>	<u>\$ 641,861</u>	<u>\$ 107,491</u>	<u>\$ 115,196</u>	<u>\$ 6,603</u>	<u>\$ 74,920</u>	<u>\$ 8,204,344</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 4 - INTERFUND ACTIVITIES**

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**A. Due From/Due To Other Funds**

Individual fund interfund receivable and payable balances as of June 30, 2008 are as follows:

	Due From Other Funds					
	General Fund	Cafeteria Fund	Capital Facilities Fund	Special Reserve for Capital Outlay	Other Governmental Funds	Total
General Fund	\$ -	\$ 7,319	\$ -	\$ 185,041	\$ 200,000	\$ 392,360
Cafeteria Fund	407,502	-	-	-	-	407,502
Capital Facilities Fund	60,031	-	-	-	-	60,031
Other Governmental Funds	54	39,951	78	-	-	40,083
Total	<u>\$ 467,587</u>	<u>\$ 47,270</u>	<u>\$ 78</u>	<u>\$ 185,041</u>	<u>\$ 200,000</u>	<u>\$ 899,976</u>

General Fund due to Special Reserve Fund for Post Employment Benefits for OPEB liability	\$ 200,000
General Fund due to Cafeteria Fund for meal reimbursement	7,319
General Fund due to Special Reserve Fund for Capital Outlay for capital projects	185,041
Cafeteria Fund due to General Fund for salaries and benefits	407,502
Deferred Maintenance Fund due to General Fund for payroll suspense accounts	54
Building Fund due to Capital Facilities Fund for bond project reimbursement	78
Capital Facilities Fund due to General Fund for 3% builder fee	60,031
County School Facilities Fund due to Special Reserve Fund for Capital Outlay Fund for new kitchen reimbursement.	39,951
Total	<u>\$ 899,976</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 4 - INTERFUND ACTIVITIES (continued)**

**B. Interfund Transfers**

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the 2007-08 fiscal year are as follows:

	Interfund Transfers Out			Total
	General Fund	Capital Project for Blended Component Units	Other Governmental Funds	
Capital Facilities Fund	\$ -	\$ 530,830	\$ 5,038,251	\$ 5,569,081
Special Reserve Fund for Capital Outlay	185,041	1,244,014	-	1,429,055
Capital Projects for Blended Component Units	-	-	22,728	22,728
Other Governmental Funds	660,910	-	-	660,910
<b>Total</b>	<b>\$ 845,951</b>	<b>\$ 1,774,844</b>	<b>\$ 5,060,979</b>	<b>\$ 7,681,774</b>
General Fund transfer to Deferred Maintenance Fund for state match				\$ 460,910
General Fund transfer to Special Reserve Fund for Postemployment Benefits for OPEB liability				200,000
General Fund transfer to Special Reserve Fund for Capital Outlay for expenditure reimbursement				185,041
Building Fund transfer to Capital Facilities Fund for Academy MPR reimbursement				38,029
County School Facilities Fund transfer to Capital Facilities Fund for multiple project reimbursement				5,000,222
Capital Project for Blended Component Units Fund transfer to Capital Facilities Fund for PDS project reimbursement				530,830
Capital Projects for Blended Component Units Fund transfer to Special Reserve Fund for Capital Outlay for Land purchase reimbursement				1,244,014
Debt Service Fund transfer to Capital Projects for Blended Component Units for administrative costs				22,728
<b>Total</b>				<b>\$ 7,681,774</b>

**NOTE 5 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2008 is shown below:

	Balance, July 1, 2007	Additions	Retirements	Balance, June 30, 2008
Capital assets not being depreciated:				
Land	\$ 8,645,562	\$ 295,000	\$ -	\$ 8,940,562
Work in progress	5,094,992	4,717,415	3,232,107	6,580,300
Total capital assets not being depreciated	13,740,554	5,012,415	3,232,107	15,520,862
Capital assets being depreciated:				
Improvement of sites	5,334,627	104,629	-	5,439,256
Buildings	98,979,892	8,890,258	-	107,870,150
Equipment	5,063,803	593,395	-	5,657,198
Total capital assets being depreciated	109,378,322	9,588,282	-	118,966,604
Accumulated depreciation for:				
Improvement of sites	(2,465,257)	(211,989)	-	(2,677,246)
Buildings	(16,047,477)	(2,534,265)	-	(18,581,742)
Equipment	(1,921,750)	(598,251)	-	(2,520,001)
Total accumulated depreciation	(20,434,484)	(3,344,505)	-	(23,778,989)
Total capital assets being depreciated, net	88,943,838	6,243,777	-	95,187,615
Governmental activity capital assets, net	\$ 102,684,392	\$ 11,256,192	\$ 3,232,107	\$ 110,708,477

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)**

Depreciation expense is allocated to the following functions in the Statement of Activities:

Instruction	\$ 2,655,435
Instruction Supervision and Administration	4,419
Instructional Library, Media and Technology	50,219
School Site Administration	104,279
Home-to-School Transportation	291,295
Food Service	82,141
All Other General Administration	61,533
Data Processing Services	35,996
Plant Services	59,188
Total	<u>\$ 3,344,505</u>

**NOTE 6 – GENERAL LONG-TERM DEBT**

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below.

	Balance, July 1, 2007	Additions	Deductions	Balance, June 30, 2008	Amount Due Within One Year
General Obligation Bonds					
Principal Payments	\$ 39,790,313	\$ -	\$ 987,519	\$ 38,802,794	\$ 1,122,593
Accreted Interest	12,248,623	2,017,301	547,481	13,718,443	667,407
Unamortized Premium	1,177,193	-	52,802	1,124,391	52,802
Total G.O. Bonds	<u>53,216,129</u>	<u>2,017,301</u>	<u>1,587,802</u>	<u>53,645,628</u>	<u>1,842,802</u>
Special Tax Bonds					
CFD 2004-1	8,695,000	-	30,000	8,665,000	40,000
CFD 2005-1	-	3,980,000	-	3,980,000	-
CFD 2005-2	2,870,000	-	-	2,870,000	10,000
CFD 2006-1	2,155,000	-	-	2,155,000	40,000
Total CFD Bonds	<u>13,720,000</u>	<u>3,980,000</u>	<u>30,000</u>	<u>17,670,000</u>	<u>90,000</u>
Certificates of Participation	9,315,000	-	370,000	8,945,000	430,000
Compensated Absences	223,385	13,377	-	236,762	-
Early Retirement Incentives	-	977,797	-	977,797	488,898
Other Postemployment Benefits	1,314,985	1,322,032	305,605	2,331,412	554,105
Totals	<u>\$ 77,789,499</u>	<u>\$ 8,310,507</u>	<u>\$ 2,293,407</u>	<u>\$ 83,806,599</u>	<u>\$ 3,405,805</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 6 – GENERAL LONG-TERM DEBT (continued)**

A. General Obligation Bonds

Election of 1995

Bonds were authorized at an election of the registered voters of the District held on March 7, 1995, at which more than two-thirds of the voters authorized the issuance and sale of \$14 million general obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The bonds were issued to finance the improvement of real property in the District and to pay the costs of issuance of the bonds.

Election of 2001

Bonds were authorized at an election of the registered voters of the District held on November 6, 2001 at which more than 55 percent of the persons voting on the measure voted to authorize the issuance and sale of \$30 million general obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The bonds were issued to finance the improvement of real property in the District and to pay the costs of issuance of the bonds.

2005 Refunding

On May 19, 2005, the District issued \$12,000,000 of Refunding Bonds. The proceeds of the Refunding Bonds were used to purchase securities which were placed into the escrow account to defease the outstanding \$11,270,000 Series A Current Interest Serial Bonds. At June 30, 2008, funds held in escrow were \$11,643,684. As a result of the refunding, the District expects to realize more than \$2 million in savings over the life of the bonds.

A summary of outstanding bonds is shown below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2007	Additions	Deductions	Balance, June 30, 2008	Amounts Due Within One Year
1995	5/16/1995	6/1/2020	4.7%-7.25%	\$ 13,998,569	\$ 10,025,766	\$ -	\$ 477,519	\$ 9,548,247	\$ 517,593
2001A	6/13/2002	8/1/2026	2.75%-5.73%	15,997,340	4,127,340	-	170,000	3,957,340	225,000
2001B	5/19/2005	8/1/2030	3.0%-5.1%	10,752,264	10,712,264	-	60,000	10,652,264	75,000
Refunding	5/19/2005	8/1/2030	3.25%-5.0%	12,000,000	11,675,000	-	265,000	11,410,000	275,000
2001C	7/13/2006	8/1/2026	4.0%-5.0%	3,249,943	3,249,943	-	15,000	3,234,943	30,000
					<u>\$ 39,790,313</u>	<u>\$ -</u>	<u>\$ 987,519</u>	<u>\$ 38,802,794</u>	<u>\$ 1,122,593</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 6 – GENERAL LONG-TERM DEBT (continued)**

A. General Obligation Bonds (continued)

The annual requirements to amortize general obligation bonds, outstanding as of June 30, 2008, are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 1,122,593	\$ 1,449,469	\$ 2,572,062
2009-10	1,263,464	1,568,785	2,832,249
2010-11	1,421,065	1,707,172	3,128,237
2011-12	1,591,372	1,859,153	3,450,525
2012-13	1,773,011	2,038,264	3,811,275
2013-18	11,909,257	14,267,421	26,176,678
2018-23	11,286,105	12,475,069	23,761,174
2023-28	5,550,625	12,454,626	18,005,251
2028-32	2,885,302	7,009,698	9,895,000
	<u>\$ 38,802,794</u>	<u>\$ 54,829,657</u>	<u>\$ 93,632,451</u>

B. Certificates of Participation

On April 1, 1996 the District issued certificates of participation in the amount of \$9,995,000 through the Victor Elementary School District Financing Corporation at interest rates ranging between 5.75% to 6.45%. The certificates were issued to refund the District's Variable Rate Demand certificates of participation (1993 School Construction Financing Project) delivered in 1993, of which approximately \$9,680,00 aggregate principal remained outstanding. At June 30, 2008 the outstanding balance of the refunding certificates was \$8,945,000.

The annual requirements to amortize all certificates are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 430,000	\$ 569,588	\$ 999,588
2009-10	500,000	544,218	1,044,218
2010-11	625,000	514,468	1,139,468
2011-12	695,000	476,655	1,171,655
2012-13	810,000	431,828	1,241,828
2013-18	5,885,000	1,219,050	7,104,050
	<u>\$ 8,945,000</u>	<u>\$ 3,755,807</u>	<u>\$ 12,700,807</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 6 – GENERAL LONG-TERM DEBT (continued)**

**C. Community Facilities District**

**CFD No. 2004-1**

On December 1, 2005, Community Facilities District (CFD) No. 2004-1 of the Victor Elementary School District issued special tax bonds in the amount of \$8,715,000. The bonds were issued to: a) finance acquisition and construction of certain school facilities and improvements to be owned and operated by the District in satisfaction of the obligation of the Merchant Builders to pay school facilities fees, b) finance the acquisition and construction of certain school facilities and improvements to be owned and operated by the Victor Valley Union High School District of benefit to the property in the CFD, and c) fund a reserve, fund capitalized interest, pay certain administrative expenses, and pay the costs of issuing the bonds. The bonds were issued as: a) Serial Bonds of \$1,980,000 having interest rates ranging between 2.65% and 5.25% and fully maturing on September 1, 2021, and b) Term Bonds of \$1,355,000, \$2,510,000, and \$2,870,000, having yields of 5.5%, 5.65%, and 5.7%, and maturing on September 1, 2025, 2030, and 2034, respectively. At June 30, 2008 the outstanding principal balance on the bonds was \$8,665,000.

The annual requirements to amortize the special tax bonds are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 40,000	\$ 463,613	\$ 503,613
2009-10	50,000	462,110	512,110
2010-11	65,000	460,012	525,012
2011-12	75,000	457,277	532,277
2012-13	90,000	453,909	543,909
2013-18	695,000	2,190,406	2,885,406
2018-23	1,210,000	1,962,201	3,172,201
2023-28	1,940,000	1,547,196	3,487,196
2028-33	2,955,000	872,900	3,827,900
2033-35	1,545,000	88,060	1,633,060
	<u>\$ 8,665,000</u>	<u>\$ 8,957,684</u>	<u>\$ 17,622,684</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 6 – GENERAL LONG-TERM DEBT (continued)**

**C. Community Facilities District (continued)**

**CFD No. 2005-1**

On September 13, 2007, Community Facilities District (CFD) No. 2005-1 issued special tax bonds in the amount of \$3,980,000. The bonds were issued to a) finance the acquisition and construction of certain elementary school facilities and improvements to be owned and operated by the School District in satisfaction of the obligation of the Property Owner to pay school facilities fees under the Mitigation Agreement (as defined herein), b) finance the acquisition and construction of certain facilities to be owned and operated by the City of Victorville of benefit to the property in the Community Facilities District, c) finance the acquisition and construction of certain facilities to be owned and operated by the Victorville Sanitary District of benefit to the property in the Community Facilities District, d) fund a reserve fund for the Bonds, e) fund capitalized interest on the Bonds through September 1, 2008, f) pay certain administrative expenses of the Community Facilities District, and g) pay the costs of issuing the Bonds. The bonds were issued as: a) Serial Bonds of \$555,000 having interest rates ranging between 4.25% and 5.15% and fully maturing on September 1, 2021, and b) Term Bonds of \$780,000 and \$2,645,000 with yields of 5.42% and 5.60%, and maturing on September 1, 2027 and 2037, respectively. At June 30, 2008 the outstanding principal balance on the bonds was \$3,980,000.

The annual requirements to amortize the special tax bonds are as follows:

**NOTE 6.D. CFD No.2005-1**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008-09	\$ -	\$ 194,732	\$ 194,732
2009-10	5,000	214,384	219,384
2010-11	10,000	214,171	224,171
2011-12	15,000	213,741	228,741
2012-13	20,000	213,085	233,085
2013-18	205,000	1,044,586	1,249,586
2018-23	400,000	984,130	1,384,130
2023-28	680,000	844,551	1,524,551
2028-33	1,065,000	619,850	1,684,850
2033-38	1,580,000	273,900	1,853,900
	<u>\$ 3,980,000</u>	<u>\$ 4,817,130</u>	<u>\$ 8,797,130</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 6 – GENERAL LONG-TERM DEBT (continued)**

**C. Community Facilities District (continued)**

**CFD No. 2005-2**

On March 15, 2007, the Community Facilities District (CFD) No. 2005-2 of the Victor Elementary School District issued \$2,870,000 of its 2007 Special Tax Bonds, Series A. The bonds were issued to provide funds to finance the acquisition and construction of certain elementary school facilities and improvements to be owned and operated by the District, to fund a reserve fund for the bonds, to fund capitalized interest on the bonds through March 1, 2008, to pay certain administrative expenses of the CFD, and to pay the costs of issuing the bonds. The bonds are payable from the proceeds of a special tax approved by the qualified electors of the CFD. At June 30, 2008, the outstanding principal balance on the bonds was \$2,870,000.

The annual debt service requirements to amortize the CFD No. 2005-2 special assessment debt outstanding as of June 30, 2008 are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 10,000	\$ 136,804	\$ 146,804
2009-10	15,000	136,429	151,429
2010-11	20,000	135,859	155,859
2011-12	20,000	135,078	155,078
2012-13	25,000	134,289	159,289
2013-18	200,000	651,801	851,801
2018-23	345,000	595,946	940,946
2023-28	540,000	498,800	1,038,800
2028-33	805,000	348,195	1,153,195
2033-37	890,000	115,000	1,005,000
	<u>\$ 2,870,000</u>	<u>\$ 2,888,201</u>	<u>\$ 5,758,201</u>

**CFD No. 2006-2**

On March 8, 2007, the Community Facilities District (CFD) No. 2006-2 of the Victor Elementary School District issued \$2,155,000 of its 2007 Special Tax Bonds, Series A. The bonds were issued to provide funds to finance the acquisition and construction of certain elementary school facilities and improvements to be owned and operated by the District, to finance the acquisition and construction of certain facilities and improvements to be owned and operated by the Victor Valley Union High School District of benefit to the property within the CFD, to fund a reserve fund for the bonds, to fund capitalized interest on the bonds through March 1, 2008, to pay certain administrative expenses of the CFD, and to pay the costs of issuing the bonds.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 6 – GENERAL LONG-TERM DEBT (continued)**

C. Community Facilities District (continued)

CFD No. 2006-2 (continued)

The bonds are payable from the proceeds of a special tax approved by the qualified electors of the CFD. At June 30, 2008, the outstanding principal balance of the bonds was \$2,155,000.

The annual debt service requirements to amortize the CFD No. 2006-2 special assessment debt outstanding as of June 30, 2008 are as follows:

NOTE 6.C. CFD No.2006-1			
Fiscal			
Year	Principal	Interest	Total
2008-09	\$ 40,000	\$ 101,469	\$ 141,469
2009-10	40,000	99,869	139,869
2010-11	40,000	98,269	138,269
2011-12	45,000	96,668	141,668
2012-13	45,000	94,869	139,869
2013-18	250,000	445,107	695,107
2018-23	310,000	384,944	694,944
2023-28	390,000	306,075	696,075
2028-33	500,000	201,250	701,250
2033-37	495,000	63,500	558,500
	<u>\$ 2,155,000</u>	<u>\$ 1,892,020</u>	<u>\$ 4,047,020</u>

D. Early Retirement Incentive

During 2007-08, the District offered employees a retirement incentive plan. In order to be eligible, employees were required to be age 55 on or before June 30, 2008, have eight years experience in the District and have five years of credit in STRS or PERS. Employees meeting these criteria were eligible to receive 30% of their current annual salary to be paid out in the increments over the next two years. There were 28 certificated and 13 classified employees who elected to retire under this plan. The District has included the future liability of \$977,797 in long-term debt at June 30, 2008.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 6 – GENERAL LONG-TERM DEBT (continued)**

**E. Postemployment Benefits Other Than Pension Benefits**

The District provides postemployment health insurance benefits to certificated, classified, managers, and board members who retire with ten years experience and are age 55 and over. The health insurance includes dental and vision for certain employees and is only provided until the person reaches age 65. During the fiscal year ended June 30, 2008, the District paid \$305,605 in these health premiums for 41 retirees. The future liability of \$2,331,412 was calculated by multiplying the monthly premiums by the number of months of remaining eligibility for each retiree.

**NOTE 7 – JOINT VENTURES**

The Victor Elementary School District participates in joint ventures under joint powers agreements with the High Desert/Inland Employee/Employer Trust, Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed unaudited financial information for the year ended June 30, 2008 is as follows:

	<u>SCSEBA</u>	<u>SCSRM</u>
Total Assets	\$ 36,822,086	\$ 50,348,470
Total Liabilities	<u>8,595,086</u>	<u>18,214,788</u>
Total Net Assets	<u>\$ 28,227,000</u>	<u>\$ 32,133,682</u>
Total Revenues	\$ 98,969,857	\$ 38,374,237
Total Expenditures	<u>99,224,579</u>	<u>29,271,941</u>
Net Increase	<u>\$ (254,722)</u>	<u>\$ 9,102,296</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 8 – RISK MANAGEMENT**

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2008, the District participated in the SCSRM public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2008, the District participated in the SCSRM JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with High Desert and Inland Employee/Employer Trust to provide employee medical benefits. The District provides life insurance benefits for management employees through SCSEBA.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

At June 30, 2008, the District had commitments with respect to unfinished capital projects of \$7,830,574.

**NOTE 10 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

<u>Fund</u>	<u>Excess Expenditures</u>
Cafeteria Fund	
Service and Other Operating	\$ 234,055*

\* Excess was caused by auditor adjustment to record fair market value of donated commodities

## **VICTOR ELEMENTARY SCHOOL DISTRICT**

### **Notes to Financial Statements**

**June 30, 2008**

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#### **NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

##### Plan Description and Provisions

##### **Public Employees' Retirement System (PERS)**

###### Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

###### Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The contribution rate in 2007-08 was 9.306%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$997,543, \$915,356 and \$815,909, and \$765,423, respectively, which represent 100% of the required contributions for each fiscal year.

##### **State Teachers' Retirement System (STRS)**

###### Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

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**NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)**

**State Teachers' Retirement System (STRS) (continued)**

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2006-07 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2008, 2007, and 2005 were \$3,293,448, \$3,128,348, and \$2,955,449, respectively, and equal 100% of the required contributions for each year.

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$1.7 million to STRS (4.517% of salaries subject to STRS in 2007-08 and 2.237% of salaries subject to STRS in 2003-04).

**NOTE 12 - GASB STATEMENT NO. 45**

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Victor Elementary School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

## *Required Supplementary Information*

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**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule – General Fund**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>Revenues</b>				
Revenue Limit Sources	\$ 63,758,958	\$ 63,102,365	\$ 62,916,289	(186,076)
Federal	4,796,843	5,288,210	4,980,771	(307,439)
Other State	8,981,814	10,565,391	10,524,873	(40,518)
Other Local	2,697,982	3,303,623	3,299,008	(4,615)
Total Revenues	80,235,597	82,259,589	81,720,941	(538,648)
<b>Expenditures</b>				
Certificated Salaries	40,357,054	40,837,710	40,687,536	150,174
Classified Salaries	9,575,052	10,186,670	9,961,392	225,278
Employee Benefits	16,097,773	15,940,899	15,726,023	214,876
Books and Supplies	3,666,753	7,427,615	4,373,954	3,053,661
Services and Other Operating	10,213,678	10,839,197	9,527,421	1,311,776
Capital Outlay	91,194	504,875	459,898	44,977
Other Outgo	-	13,753	13,752	1
Direct Support/Indirect Costs	(226,000)	(218,427)	(218,427)	-
Total Expenditures	79,775,504	85,532,292	80,531,549	5,000,743
Excess (Deficiency) of Revenues Over (Under) Expenditures	460,093	(3,272,703)	1,189,392	4,462,095
<b>Other Financing Sources (Uses)</b>				
Interfund Transfers Out	(458,754)	(845,952)	(845,951)	1
Total Other Financing Sources and Uses	(458,754)	(845,952)	(845,951)	1
Net Change in Fund Balances	1,339	(4,118,655)	343,441	4,462,096
Fund Balances, June 30, 2007	21,000,323	21,000,323	21,000,326	3
Fund Balances, June 30, 2008	\$ 21,001,662	\$ 16,881,668	\$ 21,343,767	\$ 4,462,099

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule – Cafeteria Fund**  
**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>Revenues</b>				
Federal	\$ 2,901,767	\$ 3,077,345	\$ 3,335,715	\$ 258,370
Other State	266,827	278,678	278,250	(428)
Other Local	704,808	595,765	586,943	(8,822)
Total Revenues	3,873,402	3,951,788	4,200,908	249,120
<b>Expenditures</b>				
Classified Salaries	1,548,133	1,600,893	1,578,288	22,605
Employee Benefits	800,364	711,830	696,414	15,416
Books and Supplies	1,155,705	1,249,374	1,248,722	652
Services and Other Operating	132,200	125,541	359,596	(234,055)
Capital Outlay	62,000	5,344	5,344	-
Direct Support/Indirect Costs	175,000	158,397	158,397	-
Total Expenditures	3,873,402	3,851,379	4,046,761	(195,382)
Net Change in Fund Balances	-	100,409	154,147	53,738
Fund Balances, June 30, 2007	862,917	862,917	862,917	-
Fund Balances, June 30, 2008	\$ 862,917	\$ 963,326	\$ 1,017,064	\$ 53,738

## *Supplementary Information Section*

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**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Local Education Agency Organization Structure**  
**June 30, 2008**

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The Victor Elementary School District was established as a separate school district in 1947. The District encompasses approximately 43 square miles in some unincorporated areas of San Bernardino County as well as the city of Victorville. During the year, the District operated sixteen elementary schools (kindergarten through grade 6), and two charter schools.

GOVERNING BOARD		
Member	Office	Term Expires
Dr. Gabriel Stine	President	November 2008
Karen Morgan	Clerk	November 2010
Dr. Gary Elder	Member	November 2010
Timothy Hauk	Member	November 2010
Willie Pringle	Member	November 2008

DISTRICT ADMINISTRATORS

Dr. Ralph Baker,  
*Superintendent*

Ross Swearingen,  
*Assistant Superintendent, Educational Services*

Jerene Creason,  
*Assistant Superintendent, Administrative Services*

Marie Miller,  
*Assistant Superintendent, Pupil Services*

Janet Young,  
*Assistant Superintendent, Personnel Services*

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Average Daily Attendance**  
**Year Ended June 30, 2008**

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	<u>Second Period Report</u>	<u>Annual Report</u>
<b>Regular Elementary</b>		
Kindergarten	1,419	1,419
Grades 1 through 3	4,728	4,705
Grades 4 through 6	4,702	4,666
Special Education	140	141
Home and Hospital	3	3
	<hr/>	<hr/>
Total District ADA	<u>10,992</u>	<u>10,934</u>

<u>Supplemental Instruction Elementary</u>	Hours of <u>Attendance</u> 78,842
--	---

	<u>Second Period Report</u>	<u>Annual Report</u>
<b>Charter Schools:</b>		
Mountain View Montessori:		
Kindergarten	19	19
Grades 1 through 3	43	43
Grades 4 through 6	39	39
	<hr/>	<hr/>
Total ADA	<u>101</u>	<u>101</u>
	<hr/>	<hr/>
Classroom-Based ADA	<u>99</u>	<u>100</u>
	<hr/>	<hr/>
Sixth Street Preparatory:		
Kindergarten	38	37
Grades 1 through 3	104	103
Grades 4 through 6	79	78
	<hr/>	<hr/>
Total ADA	<u>221</u>	<u>218</u>
	<hr/>	<hr/>
Classroom-Based ADA	<u>218</u>	<u>215</u>
	<hr/>	<hr/>

See accompanying note to supplementary information.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Instructional Time**  
**Year Ended June 30, 2008**

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**Victor Elementary School District**

Grade Level	1982-83	1986-87	2007-2008	Number of Days	Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	31,500	36,000	39,097	180	Complied
Grade 1	54,000	50,400	54,110	180	Complied
Grade 2	54,000	50,400	54,110	180	Complied
Grade 3	54,000	50,400	54,110	180	Complied
Grade 4	54,000	54,000	54,110	180	Complied
Grade 5	54,000	54,000	54,110	180	Complied
Grade 6	54,000	54,000	54,110	180	Complied

**Sixth Street Prep School**

Grade Level	1982-83	1986-87	2007-2008	Number of Days	Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	NA*	36,000	36,180	180	Complied
Grade 1	NA*	50,400	54,110	180	Complied
Grade 2	NA*	50,400	54,110	180	Complied
Grade 3	NA*	50,400	54,110	180	Complied
Grade 4	NA*	54,000	54,110	180	Complied
Grade 5	NA*	54,000	54,110	180	Complied
Grade 6	NA*	54,000	54,110	180	Complied

\*Sixth Street Preparatory School was not in operation in 1982-83.

**Mountain View Montessori Charter School**

Grade Level	1982-83	1986-87	2007-2008	Number of Days	Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	NA*	36,000	54,176	180	Complied
Grade 1	NA*	50,400	54,176	180	Complied
Grade 2	NA*	50,400	54,176	180	Complied
Grade 3	NA*	50,400	54,176	180	Complied
Grade 4	NA*	54,000	54,176	180	Complied
Grade 5	NA*	54,000	54,176	180	Complied
Grade 6	NA*	54,000	54,176	180	Complied

\*Mountain View Montessori Charter School was not in operation in 1982-83.

See accompanying note to supplementary information.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Financial Trends and Analysis**  
**Year Ended June 30, 2008**

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General Fund	(Budget) <sup>2</sup> 2009	2008	2007	2006
Revenues and other financing sources	\$ 76,600,320	\$ 81,720,941	\$ 81,983,383	\$ 73,098,070
Expenditures	78,417,564	80,531,549	75,698,349	70,790,537
Other uses and transfers out	-	845,951	1,281,363	2,756,104
Total Outgo	78,417,564	81,377,500	76,979,712	73,546,641
Change in fund balance (deficit)	(1,817,244)	343,441	5,003,671	(448,571)
Ending fund balance	\$ 19,526,521	\$ 21,343,767	\$ 21,000,326	\$ 15,996,655
Available Reserves <sup>1</sup>	\$ 14,780,962	\$ 15,309,728	\$ 16,701,298	\$ 11,333,024
Available Reserves as a percentage of Total Outgo	18.8%	18.8%	21.7%	15.4%
Total Long-Term Debt	\$ 76,576,314	\$ 83,806,599	\$ 77,789,499	\$ 68,681,519
Average Daily Attendance at P-2	11,089	10,992	10,892	10,540

The General Fund balance has increased by \$5,347,112 over the last two years. The fiscal year 2008-2009 adopted budget projects a \$1,817,244 decrease. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfer out, and other uses (total outgo).

The District has incurred operating deficits in only one of the past three years, but anticipates incurring an operating deficit during 2008-09 fiscal year. Total long-term debt has increased by \$15,125,080 over the past two years.

Average daily attendance has increase by 452 over the past two years. An additional increase of 97 ADA is anticipated during fical year 2008-09.

<sup>1</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund.

<sup>2</sup> As of September 2008.

See accompanying note to supplementary information.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
School Breakfast Program	10.553	13390	\$ 306,794
National School Lunch Program	10.555	13391	3,028,922
Total U.S. Department of Agriculture			<u>3,335,716</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Low Income and Neglected	84.010	13797	2,877,968
Title I, Part A, Non-Program Improvement	84.010	14796	45,000
Title II, Part A, Teacher Quality	84.367	14341	497,556
Title II, Part D, Education Technology	84.318	14334	17,514
Title III, Limited English Proficiency	84.365	10084	129,956
Title III, Immigration Education	84.365	14346	27,721
Title IV, Part A, Drug Free Schools	84.186	13453	51,361
Title V, Part A, Innovative Education Strategies	84.298	14354	19,773
Passed through SELPA:			
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance Entitlement, Part B	84.027	13379	1,068,708
Total U.S. Department of Education			<u>4,735,557</u>
U.S. Department of Health & Human Services:			
Medi-Cal Billing Option	93.778	10013	245,213
Total U.S. Department of Health & Human Services			<u>245,213</u>
Total Expenditures of Federal Awards			<u>\$ 8,316,486</u>

See accompanying note to supplementary information.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Reconciliation of Annual Financial and Budget Report With Audited Financial**  
**Statements**  
**Year Ended June 30, 2008**

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	Long-Term Liabilities
June 30, 2008, annual financial and budget report total liabilities	<u>\$ 82,828,802</u>
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
Early retirement incentives understated	<u>977,797</u>
Net adjustments and reclassifications	<u>977,797</u>
June 30, 2008, audited financial statement long-term liabilities	<u><u>\$ 83,806,599</u></u>

See accompanying note to supplementary information.

VICTOR ELEMENTARY SCHOOL DISTRICT  
Schedule of Charter Schools  
Year Ended June 30, 2008

---

<u>Charter School</u>	<u>Included in District Audit?</u>
Sixth Street Prep School	Yes
Mountain View Montessori	Yes

See accompanying note to supplementary information.

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Excess Sick Leave**  
**Year Ended June 30, 2008**

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Section 19855.3 (a)(3)(c) disclosure

Victor Elementary School District provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members:

1. Superintendent
2. Assistant Superintendent
3. Principals and other management

See accompanying note to supplementary information.

## **VICTOR ELEMENTARY SCHOOL DISTRICT**

### **Note to the Supplementary Information**

**June 30, 2008**

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#### **NOTE 1 – PURPOSE OF SCHEDULES**

##### **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

##### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201.

##### **Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

##### **Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States of America Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

##### **Subrecipients**

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

##### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

## **VICTOR ELEMENTARY SCHOOL DISTRICT**

### **Note to the Supplementary Information**

**June 30, 2008**

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#### **NOTE 1 – PURPOSE OF SCHEDULES (continued)**

##### **Schedule of Charter Schools**

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

##### **Schedule of Excess Sick Leave**

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

## *Other Independent Auditors' Reports*

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Victor Elementary School District  
Victorville, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Victor Elementary School District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 28, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

Internal Control Over Financial Reporting

MURRIETA OFFICE  
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25090 Jefferson Avenue  
Murrieta, CA 92562

In planning and performing our audit, we considered Victor Elementary School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Victor Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Victor Elementary School District's internal control over financial reporting.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Victor Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in cursive script that reads "Nijm Nijm & White, PC".

Murrieta, California  
November 28, 2008



A Professional  
Accountancy Corporation

Board of Trustees  
Victor Elementary School District  
Victorville, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Victor Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Victor Elementary School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

In our opinion, Victor Elementary School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Jeff Nigro, CPA  
Elizabeth Nigro, CPA  
Christy White, CPA

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### Internal Control Over Compliance

The management of Victor Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Victor Elementary School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Murrieta, California  
November 28, 2008



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Board of Trustees  
Victor Elementary School District  
Victorville, California

## AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Victor Elementary School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 28, 2008. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Not Applicable

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Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Not applicable
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	3	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	4	Not applicable
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Yes

Based on our audit, we found that, for the items tested, the Victor Elementary School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Victor Elementary School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Nijm Nijm & White, PC*

Murrieta, California  
November 28, 2008

## *Findings and Questioned Costs Section*

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**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended June 30, 2008**

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**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Noncompliance material to financial statements noted?	<u>No</u>

*Federal Awards*

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	
<u>Name of Federal Programs or Clusters</u>	<u>CFDA Numbers</u>
Title I, Part A, Low Income and Neglected	84.010
Basic Local Assistance Entitlement, Part B	84.027

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

*State Awards*

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended June 30, 2008**

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**Section II – Financial Statement Findings**

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

*There were no financial statement findings in 2007-08.*

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended June 30, 2008**

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**Section III – Federal Award Findings and Questioned Costs**

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings or questioned costs in 2007-08.*

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended June 30, 2008**

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**Section IV – State Award Findings and Questioned Costs**

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

*There were no state award findings or questioned costs in 2007-08.*

VICTOR ELEMENTARY SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2008

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*There were no prior audit findings in 2006-07.*

## *Statistical Section*

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**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Statistical Information**  
**Year Ended June 30, 2008**

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**Employees**

Table 1 summarizes the number of certificated, classified, and total number of employees employed by the District for School Year 1997-98 through School Year 2007-2008.

**Table 1**  
**District Employees School Year 1997-98 through School Year 2007-08**

School Year	Certificated Employees	Classified Employees	Total Employees	Percent Change
1997-98	397	232	629	N/A
1998-99	386	242	628	(0.16)
1999-00	404	236	640	1.91
2000-01	434	258	692	8.13
2001-02	440	271	711	2.75
2002-03	441	281	722	1.55
2003-04	425	369	794	9.97
2004-05	449	373	822	3.53
2005-06	490	478	968	17.76
2006-07	502	458	960	(0.82)
2007-08	512	473	985	2.60

*Source: CDE Dataquest*

**Assessed Valuation of Taxable Property**

The secured, unsecured, and total assessed valuations of taxable property within the District for Fiscal Year 1991-92 through Fiscal Year 2007-08 is listed in Table 2 below.

**Table 2**  
**Assessed Valuation of Taxable Property FY 1991-92 Through FY 2007-08**

Fiscal Year	Secured	Utility	Unsecured	Total	Percent Change
1991-92	\$2,389,977,640	\$8,671,009	\$130,451,393	\$2,529,100,042	N/A
1992-93	2,564,423,890	7,602,803	147,133,370	2,719,160,063	7.51
1993-94	2,655,032,528	7,908,981	144,179,150	2,807,120,659	3.23
1994-95	2,508,628,753	7,730,174	154,831,041	2,671,189,968	(4.84)
1995-96	2,558,030,995	8,024,961	171,719,242	2,737,775,198	2.49
1996-97	2,559,367,453	3,521,135	167,558,883	2,730,447,471	(0.27)
1997-98	2,575,890,275	3,272,597	168,113,119	2,747,275,991	0.62
1998-99	2,573,357,766	3,615,169	168,134,966	2,745,107,901	(0.08)
1999-00	2,615,739,145	3,842,239	167,676,094	2,787,257,478	1.54
2000-01	2,646,305,775	3,893,774	160,726,686	2,810,926,235	0.85
2001-02	2,762,956,517	4,033,315	173,071,606	2,940,061,438	4.59
2002-03	2,967,357,755	3,970,165	215,673,950	3,187,001,870	8.40
2003-04	3,177,598,438	3,587,227	208,706,290	3,389,891,955	6.37
2004-05	3,735,835,198	3,469,739	201,601,621	3,940,906,558	16.25
2005-06	4,543,472,358	4,562,512	209,923,340	4,757,958,210	20.73
2006-07	5,752,494,500	4,412,717	231,139,428	5,988,046,654	25.85
2007-08	6,833,257,176	2,199,050	275,315,476	7,110,771,702	18.75

*Source: County of San Bernardino, Office of the Auditor-Controller.*

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Statistical Information**  
**Year Ended June 30, 2008**

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**Top 20 Property Taxpayers**

Table 3 lists the primary land use and total assessed valuation of the top 20 property taxpayers within the District by total assessed valuation for Fiscal Year 2006-07.

**Table 3**  
**Top 20 Property Taxpayers**

Property Owner	Primary Land Use	FY 2006-07 Assessed Valuation	% of Total [1]
Macerich Victor Valley LLC	Shopping Center	\$ 101,515,078	1.52%
AFG Leasing Company, Inc.	Industrial	55,138,560	0.83
Cemex California Cement LLC	Industrial	52,827,835	0.79
MPT of Victorville	Office Building	28,356,000	0.43
Centex Homes	Residential Development	27,688,000	0.42
Synleaseco Delaware Business Trust	Industrial	25,872,923	0.39
Sagebrush Properties Inc.	Industrial	22,240,600	0.33
General Electric Company	Industrial	20,461,547	0.31
Empire Homes	Residential Development	19,646,011	0.29
Pleasant Valley Investments LLC	Vacant	17,870,136	0.27
Richmond American Homes of California	Residential Development	17,593,000	0.26
Paxbello LLC	Industrial	17,522,308	0.26
Bear Valley Partners	Commercial	16,923,435	0.25
Victor Valley Plaza Co.	Shopping Center	16,761,466	0.25
VNF Properties	Shopping Center	15,925,555	0.24
Han & Brothers Capital LLC	Commercial	15,903,658	0.24
Renaissance Victorville	Shopping Center	15,800,000	0.24
Wimbledon 289 LTD	Apartments	14,883,614	0.22
Victor Valley Town Center LLC	Shopping Center	13,931,828	0.21
Costco Wholesale Co.	Commercial Store	12,676,058	0.19
<b>Total</b>		<b>\$ 529,537,612</b>	<b>7.94%</b>

[1] 2006-07 Local Secured Assessed Valuation: \$6,671,588,958

Source: California Municipal Statistics

**VICTOR ELEMENTARY SCHOOL DISTRICT**  
**Statistical Information**  
**Year Ended June 30, 2008**

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**Typical Total Tax Rates**

Table 4 summarizes the total ad valorem tax rates levied by all taxing entities in a typical Tax Rate area with the District for Fiscal Year 2001-02 through Fiscal Year 2007-08.

**Table 4**  
**Summary of Ad Valorem Tax Rates**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
Victor Valley Union HSD	0.0202	0.0197	0.0314	0.0215	0.0185	0.0162
Victor Elementary District	0.0442	0.0466	0.0375	0.0369	0.0335	0.0307
San Bernardino County Service Area No. 64	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Total All Property	1.0644%	1.0663%	1.0689%	1.0584%	1.0520	1.0469
Mojave Water Agency						
Land Only	0.1125%	0.1125%	0.1125%	0.1125%	0.1125	0.1125
Land and Improvements	0.0550	0.0550	0.0550	0.0550	0.0550	0.0550

*Source: County of San Bernardino, Office of the Auditor/Controller.*